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Brazil

COTTON AND PRODUCTS ANNUAL

2009 Annual Cotton Report

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Report Highlights:

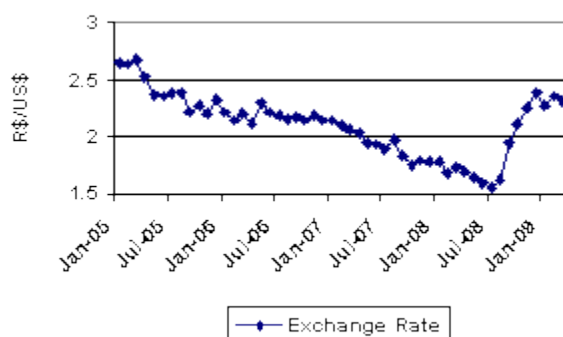
Post estimates that 2008/09 production will be 5.7 million bales, with exports a record 2.6 million bales (following the record production of 2007/08) and imports a mere 25,000 bales. As cotton is harvested mostly in June and July, the cotton that is harvested in one trade year is consumed and traded in the following trade year. Post anticipates that area will decrease 12 percent in 2009/10 due to credit restrictions and falling domestic demand, leading to production of 5 million bales. Exports in 2009/10 are expected to decrease to 2 million bales and imports to return to a more normal level of 100,000 bales.

Executive Summary:

Post estimates that 2008/09 production will be 5.7 million bales, with exports a record 2.6 million bales (following the record production of 2007/08) and imports a mere 25,000 bales. As cotton is harvested mostly in June and July, the cotton that is harvested in one trade year is consumed and traded in the following trade year. Post anticipates that area will decrease 12 percent in 2009/10 due to credit restrictions and falling domestic demand, leading to production of 5 million bales. Exports in 2009/10 are expected to decrease to 2 million bales and imports to return to a more normal level of 100,000 bales.

Commodities:

Author Defined:



Economic Situation

Brazil is among the 10 largest economies in the world with a GDP of nearly 1.6 trillion dollars and per capita income of \$8,439. Inflation increased from 4.5 percent in 2007 to 5.9 percent in 2008. Economic growth, measured by the growth in GDP, in 2008 was 5.1 percent, driven by a 5.8 percent agricultural growth rate. Although, Brazil's GDP increased in 2008 by 5.1 percent, the rate of growth declined by 3.6 percent in the last quarter of the year, reflecting the impact of the world financial crisis, which affected mostly the industrial sector. The Brazilian government is currently forecasting a 1.2 percent GDP growth in 2009, but the OECD recently forecast a contraction of 0.3 percent. The dynamics of Brazil's economy have shifted over the past few years from export-led to demand-led growth. Brazil has paid down its debt, lowered interest rates and cut back spending. Brazil had a \$24.7 billion surplus in 2008, with total exports at \$198 billion and imports at \$173 billion. The average Real-Dollar exchange rate for the year was R\$1.83 per dollar. However, because of the international credit crunch, the exchange rate began to increase in the last part of the year and is currently quoted at R\$2.32 per dollar.

Commodities:

Cotton

Production:

In 2008/09, area decreased more than 20 percent. The vast majority of this contraction occurred in Mato Grosso, the largest cotton state in Brazil, where 30 percent of cotton area was switched out of cotton and into soybeans and other commodities due to lack of adequate financing. Last year's steep increase in the price of inputs, and resultant tight credit, was particularly problematic for Mato Grosso, where transportation costs

significantly increase the costs and decrease the price paid to the farmer. Producers are generally too large, or too indebted, to access federal loans, and multinational companies were not willing to greatly increase their financial exposure as input costs increased more than the value of the land. Estimates indicate that producers financed 40 percent of the production out of their own pocket, a significant increase from the norm of 7 percent.

In 2008, according to the National Fertilizer Association (ANDA), the cost of acquiring one ton of fertilizer in exchange for cotton increased 51 percent from 2007, (from 47.2 units (15 kg) of cotton in 2007 to 71.5 units in 2008). Preliminary estimates indicate that this cost decreased slightly in the first three months of 2009 to 66.8 units.

2008/09 Total Cost of Production in Mato Grosso (R\$/ha)

	Variable	Other	Fixed	Total
Sapezal, Mato Grosso	5,139.21	207.04	469.54	5,815.79
Sorriso, Mato Grosso	5,106.04	252.15	462.50	5,820.70
Campo Verde, Mato Grosso	5,014.86	274.59	501.58	5,791.03

Source: IMEA

Reports to date indicate that the current crop looks good, with few problems. If weather continues as normal, 2008/09 production is expected to reach 5.7 million bales (1.25 million mt).

Post expects cotton area to decrease an additional 12 percent in 2009/2010 as credit remains tight and the domestic industry continues to contract. With yields following the normal trend, this overall reduction in area would result in production of 5 million bales (1.1 million mt) in 2009/10.

In March 2009, Brazil approved its 4th GMO cotton variety for commercial use. While somewhat helpful, the varieties approved to date do not address the pests of biggest concern for Brazil. In Bahia, the drought-resistant cotton varieties that are under development will be of most use, as western Bahia could greatly expand area with this technology.

Prices

The last time that the minimum price for cotton was changed was before the 2003/2004 crop, when the price was raised from R\$33.90/15 kg to R\$44.60/15 kg. Except for a brief spike in prices in early 2006, the average monthly price of cotton had been below the minimum price since October 2004. However, in early 2007, the average monthly price rose above the minimum price, increasing nearly eight percent between December 2006 and February 2007 (to an average February price of R\$1.44/lb). This prompted the federal government to begin selling stocks, resulting in a 5.6 percent reduction in the domestic price (to an average April price of R\$1.36/lb). In January 2008, the price again rose above

the minimum price, increasing to a monthly average high of R\$1.43/lb in March 2008 before falling steadily until it reached a low of R\$1.13/lb in December 2008. The government's primary means of intervening in the cotton market during this time was by supporting the commercialization of over 1 million tons of cotton through the PEPRO program. (See POLICY section below.)

2008/09 Minimum Price for Cotton

Region	Unit	Price (R\$/unit)	Price (R\$/lb)	Price (US\$/lb)
All	15 kg	44.60	1.3487	0.5818

Source: MAPA/SPA/DEAGRO

Exchange rate: US\$1 = R\$ 2.31818 (4/1/09)

Cotton Prices

Prices in cents of R\$ per lb

Year	2007	2008	% Change
Jan	140.55	137.59	-2%
Feb	144.31	138.70	-4%
Mar	136.87	143.11	5%
Apr	136.41	136.09	-0.2%
May	129.20	129.58	0.3%
Jun	116.22	126.84	9%
Jul	114.80	127.83	11%
Aug	116.58	121.71	4%
Sep	119.65	121.66	2%
Oct	118.95	123.02	3%
Nov	119.28	117.08	-2%
Dec	126.37	113.02	-11%

Source: CEPEA

Consumption: Cotton consumption is expected to decline 15 percent in 2008/09, to 4.2 million bales. According to industry data, textile production began 2008 with a slow increase, but then fell 10 percent between September 2008 and February 2009. As the flood of imports from Asia picks up (see Trade section below), this contraction is expected to continue in the coming months. Post estimates 2009/10 consumption to decrease an additional 10 percent, to 4 million bales.

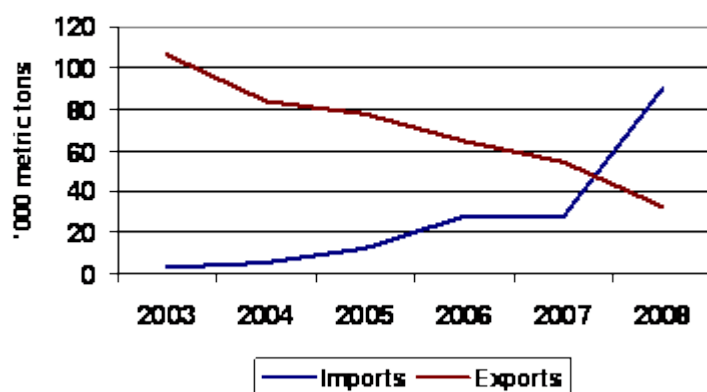
Trade:

Post estimates 2008/09 cotton exports at a record 2.6 million bales (566,000 mt), as Brazil exports the record production of 2007/08. Imports are estimated at a mere 25,000 bales (5,000 mt) for 2008/09.

Cotton production in 2008/09 is expected to be down 22 percent from the previous year. These tighter supplies are expected to result in 2009/10 exports of 2 million bales (435,000 mt) and imports of 100,000 bales (22,000 mt).

Imports of fabric, yarn and textiles from Asia (particularly India and China) have increased enormously in recent years. Imports of fabric have increased 1,172 percent from 5 years ago (175 percent between 2007 and 2008 China nearly quadrupled its fabric shipments to Brazil between 2007 and 2008, reaching 60 percent of Brazil's fabric imports. Imports of yarn increased 1,721 percent from 5 years ago (250 percent between 2007 and 2008). India increased its yarn shipments to Brazil by 737 percent between 2007 and 2008, reaching 84 percent of Brazil's yarn imports. According to an agreement established in 2005, China limited textile exports to Brazil through the establishment of quotas. That agreement expired at the end of 2008, and the Chinese government has turned down all requests for a new agreement. In the first 3 months of 2009, imports of clothing increased 56 percent over the same time period in 2008, with 72 percent of those imports originating in China.

Fabric and Yarn Trade



Trade Tables

Brazil Cotton Exports (1000 480-lb bales)			
Country	2005	2006	2007
	2005/2006	2006/2007	2007/2008
	Market Year Begin: Aug 2005	Market Year Begin: Aug 2006	Market Year Begin: Aug 2007
World	1,972	1,300	2,231
Indonesia	252	189	430
Pakistan	411	239	403
South Korea	110	219	341
Argentina	124	130	142
Japan	115	106	139
China	402	43	126
Taiwan	95	90	111
Thailand	69	44	106
North Korea	35	58	88
EU27	127	39	26

United States	84	20	52
Others	148	123	267

Brazil Cotton Imports (1000 480-lb bales)			
Country	2005	2006	2007
	2005/2006	2006/2007	2007/2008
	Market Year Begin: Aug 2005	Market Year Begin: Aug 2006	Market Year Begin: Aug 2007
World	308	515	164
Paraguay	55	146	40
Egypt	7	13	14
Turkmenistan	3	0	3
Cameroon	0	18	3
Israel	3	2	3
Argentina	1	11	2
Mali	11	48	0
Benin	20	19	0
Burkina Faso	0	19	0
Ivory Coast	2	10	0
United States	188	215	100
Others	18	14	0

Stocks:

Government stocks of cotton remained unchanged in 2008, despite price fluctuations.



Policy:

According to the Ministry of Agriculture, Brazil provided R\$549 million (US\$236.8 million) to the cotton industry in support for commercialization in 2008. This amount, while significant, is considered to be de minimis spending, as it is less than 10 percent of the value of production, and is therefore never counted against Brazil's Aggregate Measurements of Support (AMS) commitment in the WTO. This support was provided exclusively through the use of the PEPRO program (see Government Programs). The

government is expected to utilize PEPRO again this year, as it is extremely popular with producers.

The quantity of cotton supported by the government in 2008 is provided in the table below, as well as descriptions of the major government programs. These programs are utilized to support commodity prices and to assist in the flow of cotton from the production areas to the consumption areas. While some of this cotton is exported, these programs are not considered to be export subsidies since the recipient is not required to export the product. In addition, a waiver for developing countries in the WTO Agriculture Agreement allows them to subsidize transportation.

Government Support for the Commercialization of Cotton ('000 mt)

Program	2005	2006	2007	2008
Acquisition (AGF)	4.5	0	1.1	0
PEP	136.5	1.8	0	0
PROP	272.2	0	0	0
PEPRO	0	461.5	428.9	1,023.6
Total	413.2	463.3	730.0	1,023.6
Production	1,298.7	1,037.8	1,524.0	1,602.2
Participation %	31.8%	44.6%	47.9%	63.9%

Source: Brazilian Ministry of Agriculture/SPA/DEAGRO

Government Programs

The Equalization Premium Paid to the Producer (Prêmio Equalizador Pago ao Produtor, PEPRO) is a premium granted to the farmer or cooperative which sells its products at public auction, where the government pays the difference between the Reference Value established by the government and the value of the premium (the maximum value paid by the government as a guarantee of the Reference Value).

Risk Premium for Acquisition of Agricultural Products Deriving from Private Contracts of Sales Options (Prêmio de Risco para Aquisição de Produto Agrícola Oriundo de Contrato Privado de Opção de Venda, PROP) is a subsidy program granted in the form of a public auction for the consumer to acquire, at a future date, a determined product directly from the producer and/or cooperative at a prefixed price, utilizing a private contract for the option to sell.

The Premium for Marketing of Products (Prêmio de Escoamento de Produto, PEP) provides the minimum guaranteed price to producers and cooperatives by paying the difference between the minimum guaranteed price and the market price. The objective is to supplement the supply of commodities in areas of the country considered to be deficient in

agricultural production, such as the Northeast of Brazil. In PEP, the product is taken from private stocks.

Federal Government Acquisition (Aquisição do Governo Federal, AGF) allows the government to acquire agricultural products at the minimum price when the market price is below the minimum. It also allows the government to acquire products at market prices for use in the *Agricultura Familiar* Program and to build strategic stocks.

Production, Supply and Demand Data Statistics:

Cotton Brazil	2007			2008			2009		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Aug 2007			Market Year Begin: Aug 2008			Market Year Begin: Aug 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Planted	0	0	0	0	0	0			0
Area Harvested	1,077	1,077	1,077	885	850	850			750
Beginning Stocks	5,408	5,408	5,408	6,251	6,249	6,250			5,350
Production	7,360	7,358	7,359	5,800	5,725	5,725			5,050
Imports	164	164	164	100	50	25			100
MY Imports from U.S.	0	100	100	0	0	0			0
Total Supply	12,932	12,930	12,931	12,151	12,024	12,000			10,500
Exports	2,231	2,231	2,231	2,400	2,500	2,600			2,000
Use	4,600	4,600	4,600	4,300	4,200	4,200			4,000
Loss	-150	-150	-150	-150	-150	-150			-150
Total Dom. Cons.	4,450	4,450	4,450	4,150	4,050	4,050			3,850
Ending Stocks	6,251	6,249	6,250	5,601	5,474	5,350			4,650
Total Distribution	12,932	12,930	12,931	12,151	12,024	12,000			10,500
Stock to Use %	92	91	91	84	82	79			78
Yield	1,488.	1,487.	1,488.	1,427.	1,466.	1,466.			1,466.

Author Defined:

Other Relevant Reports

[BR9604](#) [Cotton Update](#)

[BR8616](#) [Cotton Annual Report](#)